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SUBJECT: EU Faults Belgian Aerospace Subsidies

REF: A) Brussels 309, B) Brussels 3531

11. (U) Summary. The EU Commissioner for Competition has found Belgium's state aid program to aerospace firms working with Airbus to be incompatible with EU regulations. In an agreement with the Belgian government announced November 24, the assistance program will be halved in funding, and some funds already disbursed will have to be repaid to the Belgian government by the technology firms. All further assistance will be subject to tighter criteria. Comment: While the European Commission approved the nature of the support program originally, USG longstanding concerns about the excessive scale of this assistance have now been vindicated by the same body. End Summary.

12. (U) On November 24, EU Competition Commissioner Neelie Kroes agreed to a settlement with the Belgian government regarding its subsidy program for aviation contractors working with Airbus. The EU judged the Belgian program incompatible with EU regulations on research and pre-production development; the program only required repayment if the work resulted in a commercially successful product, and then was repaid without any interest attached. Commission rules also permit only 50 percent subsidy of industrial research, plus another 25 percent of industrial development. The Commission requested that the amount of the Belgian program be halved, and some assistance monies already paid companies be reimbursed to the government. The support program budget will be cut from 165 million euros to 82.5 million euros.

13. (U) The actual impact of the action means that Belgium's federal support program to eight companies working with Belairbus, the consortium engaged in designing Airbus aircraft, and thereafter supplying components to Airbus, must be scaled back, and some assistance repaid to the government. Techspace Aero, from Belgium's French-speaking

Walloon region, for example, is allowed only 37 million euros in place of the original 41 million. The details of the Techspace work on Airbus 380 engines revealed that state aid accounted for 65 percent of industrial research, and 45 percent of pre-commercial development, both exceeding the 50 and 25 percent thresholds, respectively. The sum due to be repaid is about 10 million euros; the Techspace financial director told the press that this could be replaced with other sources of funding, and claimed the firm was not worried.

¶4. (U) The other companies for which state assistance loans must be recalculated are Septentrio, ASCO, LMS, and Barco. The same repayment conditions will apply to other companies still in the pre-commercialization phase if their products are successful: Europlasma, Electronic Apparatus, Samtech and XenICS/FOS&S.

¶5. (SBU) Comment: The EU decision led to contradictory interpretations in Belgium's Flemish and French press. The leading Flemish business daily ran headlines claiming "EU Cuts Belgian Airbus Research", while the Francophone financial press claimed "Belgian Aerospace Assistance Conforms to EU (norms)". True, the Commission did not find the program illegal per se, but only incompatible with EU criteria. Six of the eight Belairbus-associated companies are based in Wallonia.

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Both Flemish and Walloon industrial associations lobby in favor of the Belgian Federal support program, as companies in both regions have benefited. Embassy has consistently cited Belgium's assistance program to Airbus participation as a concern for inclusion in the annual USTR Trade Estimates Report to Congress; Commission action vindicates that concern.
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